

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN)	
WATER COMPANY FOR AN ORDER)	
AUTHORIZING THE ISSUANCE AND SALE)	
OF ITS GENERAL MORTGAGE BONDS,)	
16 3/8 PERCENT SERIES, DUE)	
SEPTEMBER 1, 1989, IN THE PRINCIPAL)	CASE NO. 8569
AMOUNT OF \$6,000,000.00 AND THE)	
SALE OF 137,300 SHARES OF COMMON)	
STOCK FOR THE AGGREGATE CONSID-)	
ERATION OF \$3,000,000.00)	

O R D E R

On July 21, 1982, Kentucky-American Water Company ("Kentucky-American") filed its application seeking authority to issue and sell \$6,000,000 of its general mortgage bonds at 16 3/8 percent interest and 137,300 shares of its no par value common stock for \$3,000,000.

The proceeds from the sale of the securities and common stock will be used to re-pay short-term bank loans in the amount of \$7,344,000 as of May 31, 1982, the cost of issuance of the bonds and the stock estimated to be \$75,000 and the cost of additional construction, completion, extension or improvement of Kentucky-American's plant and distribution system in the amount of \$1,581,000.

The Division of Consumer Protection of the Department of Law was the only intervenor. A public hearing was conducted at the Commission's offices in Frankfort, Kentucky, on September 10, 1982.

The Commission, after consideration of the application and all evidence of record and being advised, is of the opinion and finds the proposed issuance and sale of Kentucky-American of 137,300 shares of its no par value common stock, said stock to be sold to American Water Works Company, Inc., for a consideration of \$3,000,000 is for lawful objects within the corporate purposes of its utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purposes. However, the Commission cannot so find as to the proposed issuance of mortgage bonds.

The Commission believes that if the provisions of KRS 278.300 are to have meaning, the Commission must withhold authorization of the general mortgage bonds. By any measure, the terms of the proposed sale do not reflect current conditions in the capital market or likely future trends. Accordingly the Commission believes issuance of the bonds on the terms proposed is not in the public interest. The Commission reminds the parties that furtherance of the public interest is the primary reason for the existence of this Commission and its counterparts in other jurisdictions.

The Commission notes that between early July, when the terms of the proposed issue were agreed to, and the hearing in this case:

1. The prime rate declined three percentage points;
2. The rate of U. S. Treasury obligations maturing in 1989, the maturity of the proposed issue, declined at least two percentage points; and

3. The Moody's average rate on high-grade utility bonds declined at least two percentage points.

The Commission also notes that other important features of the proposed issue, e.g., the seven-year term of the issue and the prohibition against call prior to maturity, impose onerous terms on Kentucky-American, and ultimately on its customers. Although features of the proposed bond issue -- interest rate, term, and prohibition against call -- might have reflected conditions in the capital market at the time the provisions were negotiated, they do not reflect capital market conditions today -- conditions which the consensus of informed opinion seems to believe are likely to become even more favorable to borrowers in the near term.

The Commission further notes that until such time as the short-term debt of Kentucky-American is funded through the issuance of longer-term obligations, Kentucky-American's short-term debt is at the prime interest rate, which, at 13.5% currently, is substantially lower than the 16 3/8% interest rate of the proposed issue of bonds.

The Commission is aware that its decision to withhold authorization of the proposed issue of mortgage bonds is not without some possible risk to Kentucky-American, and thus ultimately to the customers. But in this regard the Commission can only repeat that, in its view, if the provisions of KRS 278.300 are to have meaning, the Commission is not merely to approve, without thorough review, the terms of a proposed issue of securities of any utility over which the Commission has jurisdiction. Rather, the Commission is to subject those terms to careful review and, making its best effort to balance the various considerations -- which it must do in all

matters which come before it -- reach a decision which in the Commission's opinion furthers the public interest.

The Commission believes that this view of its role under the provisions of KRS 278.300 is precisely what was and is intended by the Kentucky General Assembly, and further believes that when this view of its role under the provisions of KRS 278.300 is applied in this proceeding, the Commission must withhold authorization of the proposed issuance of the mortgage bonds.

Therefore, the Commission, after consideration of the application and all evidence of record and being advised, finds that the proposed issuance and sale by Kentucky-American of \$6,000,000 of its general mortgage bonds at 16 3/8 percent interest is not necessary and appropriate for and consistent with the proper performance of its service to the public and that their issuance and sale at the proposed terms will impair its ability to perform that service at reasonable cost.

IT IS THEREFORE ORDERED that Kentucky-American be and it hereby is authorized to issue and sell 137,300 shares of its no par common stock to its parent company, American Water Works Company, Inc., for a consideration of \$3,000,000.

IT IS FURTHER ORDERED that the proceeds from the sale of the securities authorized herein shall be used only for the lawful purposes as set out in the application.

IT IS FURTHER ORDERED that Kentucky-American be and it hereby is denied authority to issue and sell \$6,000,000 of its general mortgage bonds at 16 3/8 percent interest.

Nothing contained herein shall be construed as a finding of

value for any purpose or as a warranty on the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 23rd day of September, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Vogt
Chairman

Katherine Gaudale
Vice Chairman

Tim Carson
Commissioner

ATTEST:

Secretary